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No. 96-1470

IN THE SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1997

QUALITY KING DISTRIBUTORS, INC.,
*Petitioner,*

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,
*Respondent.*

On Writ of Certiorari
to the United States Court of Appeals
for the Ninth Circuit

# BRIEF FOR THE NATIONAL CONSUMERS LEAGUE, THE NATIONAL ASSOCIATION OF MANUFACTURERS, THE COSMETIC, TOILETRY, AND FRAGRANCE ASSOCIATION, THE NONPRESCRIPTION DRUG MANUFACTURERS ASSOCIATION, AND THE COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS

CHARLES E. BUFFON
*Counsel of Record*
CAROLINE M. BROWN
RONALD G. DOVE, JR.
Covington & Burling
1201 Pennsylvania Ave., N.W.
Post Office Box 7566
Washington, D.C. 20044
(202) 662-6000

*Counsel for the National Consumers League and the Coalition to Preserve the Integrity of American Trademarks*

- Additional Counsel Listed on Inside Cover -

BEST AVAILABLE COPY

*Of Counsel:*

JAN S. AMUNDSON
General Counsel
QUENTIN RIEGEL
Deputy General Counsel
National Association of
Manufacturers
1331 Pennsylvania Ave., N.W.
Washington, D.C. 20004
(202) 637-3000

*Counsel for the National
Association of Manufacturers*

THOMAS J. DONEGAN, JR.
Vice President-Legal & General Counsel
The Cosmetic, Toiletry,
and Fragrance Association
1101 17th Street, N.W.
Suite 300
Washington, D.C. 20036
(202) 331-1770

*Counsel for The Cosmetic, Toiletry,
and Fragrance Association*

DANIEL F. O'KEEFE, JR.
Senior Vice President and
General Counsel
EVE E. BACHRACH
Vice President, Deputy General Counsel
and Secretary
Nonprescription Drug Manufacturers Association
1150 Connecticut Avenue, N.W.
Washington, D.C. 20036
(202) 429-9260

*Counsel for the Nonprescription Drug
Manufacturers Association*

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## INTEREST OF THE AMICI CURIAE

This *amicus curiae* brief is submitted on behalf of the National Consumers League ("NCL"), the National Association of Manufacturers ("NAM"), The Cosmetic, Toiletry, and Fragrance Association ("CTFA"), the Nonprescription Drug Manufacturers Association ("NDMA"), and the Coalition to Preserve the Integrity of American Trademarks ("COPIAT") in support of respondent L'anza Research International, Inc.[1]

The NCL is America's pioneer consumer organization. For close to a century, NCL has advocated economic and social justice for consumers and workers in both the marketplace and the workplace. As part of its activities, NCL has examined the effect of the gray market on consumers and consumer well-being in a variety of product areas. NCL has also determined that the consumer harms created by the gray market can be averted through proper enforcement of U.S. intellectual property laws.

The NAM is the nation's oldest and largest broad-based industrial trade association. Its more than 14,000 member companies and subsidiaries, including 10,000 small manufacturers, employ approximately eighty-five percent of all manufacturing workers and produce over eighty percent of the nation's manufactured goods. More than 158,000 additional businesses are affiliated with the NAM through its Associations Council and National Industrial Council.

The CTFA is the leading national trade association representing the interests of the personal care products industry. Founded in 1894, CTFA has an active membership of approximately 300 companies that manufacture or distribute the vast majority of finished personal care products marketed in the United States. CTFA also represents approximately 300 associate member companies including manufacturers of raw materials and packaging.

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[1] Letters from both parties indicating consent to file this *amicus curiae* brief are on file with the Clerk. Pursuant to Rule 37.6, *amici* state that no counsel for either of the parties authored this brief in whole or in part. No person or entity, other than *amici curiae* and their members, made a monetary contribution to the preparation or submission of this brief.

CTFA membership includes companies large and small. More than 60 percent of CTFA members have yearly sales of $1 million or less. The personal care product industry is an important factor in the nation's economy, employing directly or indirectly more than two million people who are involved in the manufacture, distribution, marketing or sale of $22 billion worth of personal care products in the United States in 1996.

NDMA is the 116-year old national trade association representing manufacturers and distributors of nonprescription or over-the-counter (OTC) drugs. NDMA members account for over 90 percent of the retail sales of OTC drugs in the United States, including such well-known brands as Tylenol®, Bayer®, and Advil®.

Members of NAM, CTFA, and NDMA frequently use copyrighted works in the labels and package design of their products and have been injured as a result of gray market imports that display those works.

COPIAT is a trade association representing a total of approximately 12,000 businesses. COPIAT is dedicated to protecting the value of trademarks and copyrights in American industries by combatting all types of intellectual property fraud. In particular, COPIAT has worked for legislative, judicial, and regulatory changes designed to prevent the business injury to its members resulting from the importation and sale of gray market goods.



## SUMMARY OF ARGUMENT

The decision below should be affirmed as a correct interpretation of section 602(a) of the Copyright Act, 17 U.S.C. § 602(a).

The gray market prevents a copyright owner from fully enjoying one of the exclusive rights granted by the Copyright Act—the right of domestic distribution—and thus diminishes the value of the copyright. This is equally true whether the work is itself copyrighted, such as a book or audio recording, or whether the copyright is in an original work created to package and market a commercial product, such as the hair care products at issue here. In both cases, the copyright is devalued because the gray market "free rides" off the integrity, quality, and investment associated with the sale of works authorized for distribution in this country. In addition, with respect to commercial products in particular, the value of the copyright is diminished if the consumer is deceived, injured, or otherwise dissatisfied with the purchase of an item not intended for the domestic market. Finally, the value of a copyright is further decreased when the market is oversaturated with copies of the work not intended for sale in this country or when copies are sold in inappropriate distribution channels.

In section 602(a) of the Copyright Act, Congress gave copyright owners the power to block importation and distribution of gray market goods. Section 602(a) ensures that a copyright owner gets the full benefit of its exclusive domestic distribution rights under section 106(3), which would otherwise be undermined by gray market imports. The language and legislative history of section 602(a) clearly covers the importation of gray market goods as well as pirated ones.

The first sale doctrine codified in section 109(a) of the Copyright Act does not negate section 602(a)'s right to block unauthorized imports. If the first sale doctrine were to apply, section 602(a)'s provisions would effectively be limited to pirated copies only, contrary to Congress's clear intent to have section 602(a) cover gray goods as well. Petitioner's attempts to construct

a handful of examples that would give "meaning" to section 602(a) with respect to importation of non-piratical goods must be rejected as inconsistent with the language and intent of the statute. Moreover, construing section 109(a) to apply to sales first made overseas is inconsistent with the territorial scope of the Copyright Act and would make section 109(a)'s "limitation" to section 106(3) broader than the section 106(3) right itself.

The Copyright Act allows a copyright owner to sue the distributor of any goods imported without authorization. The right holder is not limited to bringing suit only against the actual importer. In order to give copyright owners effective redress against all manner of infringement, the Copyright Act allows suit against anyone in the chain of distribution. The argument of *amici* Costco Companies, Inc., *et al.*, that these general principles of federal copyright law do not apply to section 602(a) must be rejected.

## ARGUMENT

### I. THE GRAY MARKET DIMINISHES THE VALUE OF THE COPYRIGHT BY UNDERMINING A COPYRIGHT OWNER'S EXCLUSIVE RIGHT TO DISTRIBUTE THE COPYRIGHTED WORK IN THE UNITED STATES.

In the decision under review, the Ninth Circuit correctly recognized that the gray market diminishes the value of a copyrighted work by interfering with the copyright owner's exclusive right to domestic distribution.[2]

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[2] "Gray market" goods are defined as goods that are intended for sale in a foreign market but are diverted for sale in this country through unauthorized channels of distribution.

This is a more comprehensive definition of "gray market" than that set forth by this Court in *K Mart Corp. v. Cartier, Inc.* 486 U.S. 281 (1988), which defined a gray market good as a "foreign-manufactured good, bearing a valid U.S. trademark, that is imported without the consent of the U.S. trademark holder." *Id.* at 285. Although many gray market goods *are* manufactured abroad for sale abroad, some (including the ones (continued...)



Section 106 of the Copyright Act confers a bundle of exclusive rights to the owner of the copyright. These rights are "intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired." *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984); *accord Harper & Row v. Nation Enterprises*, 471 U.S. 539, 546 (1985) (quoting *Sony*).

Among the exclusive rights granted to a copyright owner is the right to "distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." 17 U.S.C. § 106(3). This right encourages artistic creativity that ultimately redounds to the public benefit by ensuring that the author of a copyrighted work can distribute the work to the public and thus "secure a fair return" for his or her labors. *See Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975). By making this right exclusive, the statute recognizes that an author cannot secure a fair return if he or she cannot control the scope and manner of distribution.

Section 106(3)'s grant of exclusive distribution rights extends only to the United States and its territories and possessions, because the U.S. copyright laws do not operate outside the territorial confines of the United States. *See United Dictionary Co. v. G. & C. Merriam Co.*, 208 U.S. 260 (1908); *see generally* Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of*

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[2](...continued)
at issue here) are manufactured domestically and then exported. Similarly, although many gray market goods are trademarked, others (including the ones at issue here) are subject to copyright or patent protection, or some combination of the three.

Gray market goods are sometimes inaccurately referred to as "parallel imports." While all gray market goods are intended for sale abroad and are imported into the United States, goods intended for domestic distribution are frequently manufactured in this country. In such circumstances, it cannot truly be said that there is any "parallel importation" because the authorized goods are not imported at all.

*Globalism*, 37 VA. J. INT'L L. (forthcoming 1997). Because the United States has acceded to the Berne Convention, a work published in the U.S. will be protected by copyright in other signatory countries, as well as domestically. However, the copyright owner's rights abroad are determined by the laws of each individual signatory country. *See* Berne Convention for the Protection of Literary and Artistic Works, art. V(1) (Paris 1971), Sen. Treaty Doc. No. 27, 99th Cong. 2d Sess., 40 (1986); *see also* Universal Copyright Convention, 25 UST 1341, art. II (1971). In other words, a copyright owner's right to distribute his or her work in countries other than the United States is governed by the law of each country and not by the U.S. Code.

As we explain below, a copyright owner's exclusive right under section 106(3) to control distribution of copies of the copyrighted work in this country is substantially undermined by the gray market. This is equally true whether the good is itself copyrighted, such as a book or audio recording, or whether the copyright is in an original work created to package and market a commercial product, such as the hair care products at issue here.[3]

The principal way in which the gray market can diminish the value of an intellectual property right is by the gray marketer's

[3] Contrary to the suggestion of petitioner, Pet. Br. at 33, Congress has long recognized that a label or design on an article of merchandise, if original and sufficiently creative, is appropriately protected through copyright. In 1939, Congress amended the 1909 Copyright Act specifically to include "prints or labels used for articles of merchandise" as copyrightable subject matter. *See* Act of July 31, 1939, ch. 396, §§ 2, 3, 53 Stat. 1142. When the copyright law was overhauled in 1976, Congress made clear that in amending the definition of copyrightable "pictorial, graphic, and sculptural" works it had "no intention whatever to narrow the scope of the subject matter now characterized . . . as 'prints or labels used for articles of merchandise.'" H.R. REP. NO. 1476, 94th Cong., 2d Sess. 54 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5667. To be copyrightable, labels require a higher degree of originality than other writings *See* 1 Melville B. Nimmer & David Nimmer, NIMMER ON COPYRIGHT § 2.08[G][3] (1996).



"free ride" off the investment of the U.S. right holder.[4] It is frequently the product's copyrighted packaging that makes it recognizable or appealing to consumers. Without the copyrighted label or design, there would be no "market" for gray goods because gray marketers do not themselves engage in design, advertising, marketing, or promotion for these goods and instead make their profits by relying wholly on the efforts made by others.

In other words, a gray market for a product can develop regardless of whether U.S. prices are higher, lower, or equal to foreign prices. It is not a function of a "discriminatory pricing regime," as repeatedly alleged by petitioner. Pet. Br. at 2-3, 11, 31. All that is necessary for a gray market to flourish is that the value added to the product by the U.S. copyright or trademark owner—through quality control, advertising, and marketing—be greater than the shipping costs to the United States.

Needless to say, copyright owners and other intellectual property right holders lose money when gray marketers "free ride" off their investment. In order to establish brand recognition and to develop consumer markets, U.S. businesses must make significant investments in product innovation, services, and marketing, including the creation of original art works to serve as labels or packaging. *See, e.g., Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1381 (C.D. Cal. 1993) (finding copyrighted package design to be "an important part" of product's overall marketing scheme). A copyright owner does not get the benefit of this investment if a gray market can use the product

[4] *See* Richard A. Posner, *Antitrust Policy and the Supreme Court: An Analysis of the Restricted Distribution, Horizontal Merger and Potential Competition Decisions*, 75 COLUM. L. REV. 282, 285 (1975); *see also CIT Judicial Conference Examines Grey Goods Issue*, 31 Pat. Trademark & Copyright J. (BNA) No. 755, at 36 (Nov. 14, 1985) (reporting position of International Trade Commission that gray market exists because of "free ride" and not due to price discrimination between markets).

recognition and appeal that has been created in the work to take sales away from authorized distributors.[5]

The second way in which the gray market devalues a copyrighted work associated with a commercial product is by way of its deleterious effect on U.S. consumers due to the differences in quality, integrity, and safety between authorized and gray market goods. A copyright owner who creates an appealing and original package design, and then invests in marketing and promotional efforts that feature the copyrighted work, has wasted its efforts if consumers are ultimately harmed or disappointed due to their purchase of a gray market product.[6]

This consumer dissatisfaction arises because gray market goods are designed to conform to the laws, standards, and consumer preferences of the *foreign* countries in which they are intended to be sold. For example, gray market electronic products may operate

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[5] Contrary to popular belief, gray market importers do not always pass along their "free-riding" profits to U.S. consumers. Like other economic actors, gray market importers charge what the market will bear, and it is not unusual to find gray market goods priced at or above the prices charged for authorized products. *See In re Certain Alkaline Batteries*, 225 U.S.P.Q. 823, 826 (I.T.C. 1984), *rev'd*, 225 U.S.P.Q. 862 (1985); *see also Gray Market Is Giving Hair-Product Makers Gray Hair*, N.Y. TIMES, July 13, 1997, § 1, at 28 (price survey revealed that gray market products are frequently more expensive than their authorized counterparts).

[6] This scenario will most commonly occur when the copyrighted work is operating in conjunction with or as a trademark, *i.e.*, when consumers use the creative work to identify the product as coming from a particular source. The Lanham Act protects against importation of trademarked gray market goods that materially differ from their U.S. domestic counterparts, even if the foreign and domestic trademark owners are affiliated. *See, e.g., Lever Bros. Co. v. United States*, 981 F.2d 1330 (D.C. Cir. 1993); *Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992); *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68 (2d Cir. 1987). The fact that these gray market harms may be averted through proper application of trademark law, however, does not mean that they are not also relevant in the copyright context.



only with foreign voltage requirements, *see Yamaha Corp. of America v. United States*, 745 F. Supp. 730, 730-31 (D.D.C. 1990), *aff'd*, 961 F.2d 245 (D.C. Cir. 1992), *cert. denied*, 506 U.S. 1078 (1993); detergents may be made for different water conditions, *see Lever Bros. Co. v. United States*, 877 F.2d 101, 103 (D.C. Cir. 1989); toothpaste may have fluoride levels that are dangerously high for the U.S., where the water is already fluoridated, *see Legislation to Amend the Lanham Trademark Act Regarding Gray Market Goods: Hearing on S.616 Before the Subcomm. on Patents, Copyrights, and Trademarks of the Senate Comm. on the Judiciary*, 100th Cong., 2d Sess., at 520-25 (1990) (statement of the Nat'l Council of Senior Citizens); soaps and beauty products may have a different chemical composition or fragrance, *see Helene Curtis v. National Wholesale Liquidators, Inc.*, 890 F. Supp. 152, 155 (E.D.N.Y. 1995); food-stuffs may contain traces of pesticide not approved for use in the United States or may have a different nutritional or caloric content, *see Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 753 F. Supp. 1240, 1243 (D.N.J.), *aff'd*, 935 F.2d 1281 (3d Cir. 1991); and operating instructions may be in a foreign language, *see Osawa & Co. v. B&H Photo*, 589 F. Supp. 1163, 1168-69 (S.D.N.Y. 1984).

Even if the gray market good is physically identical to its authorized counterpart at the time of manufacture, it can be damaged or altered at the point of sale because of poor shipment and handling or because of deterioration en route. *See, e.g., Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 642 (1st Cir. 1992); *Grupo Gamesa, S.A. de C.V. v. Dulceria el Molino, Inc.*, 39 U.S.P.Q.2d 1531, 1532-33 (C.D. Cal. 1996). Furthermore, gray market merchandise is virtually never eligible for factory-authorized repairs or covered by U.S. warranties for domestic goods. *See, e.g., United States v. Eighty-Three Rolex Watches*, 992 F.2d 508, 509 (5th Cir. 1993); *John Paul Mitchell Sys. v. Pete-n-Larry's, Inc.*, 862 F. Supp. 1020, 1926 (W.D.N.Y. 1994). Finally, because gray market goods are, by definition, sold outside of authorized distribution channels, it can be very difficult for a manufacturer or government agency to determine where or how to implement recall or other safety notices.

Despite the significant differences that can exist between authorized and gray market goods, consumers are almost never advised that they are purchasing goods not intended for sale in this country. As *amici* Costco Companies *et al.* points out, it is not unusual that these goods appear side-by-side on a shelf with authorized goods. Costco Br. at 25. Therefore, a consumer deceived, injured or dissatisfied with a gray market purchase is not likely to "try again" and buy an authorized product. The end result is that a copyright owner who has invested substantial time and money in creating an original package design that appeals to consumers will not be getting the repeat sales that the investment may otherwise have generated.

The final way in which the gray market devalues a copyright associated with an unauthorized import is by depriving a copyright owner of the opportunity to control the scope and manner of distribution of the copyrighted work. An author of a work may well determine that the best way to profit from his or her creative endeavor is to make it available only through select distributors or in a limited quantity. Section 106(3) makes this decision the prerogative of the copyright owner. Although the copyright law is intended to allow public enjoyment of these works over time, there is no requirement that distribution be widespread during the author's limited period of exclusive control.[7]

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[7] Nor does any other area of the law prevent a copyright owner from limiting distribution to certain retailers. In *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977), this Court reversed *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967), and held that it is not presumptively anticompetitive or unlawful for a manufacturer to limit the distributors permitted to sell its products. Applying the rationale of *GTE Sylvania* in the copyright context, federal antitrust guidelines conclude that territorial and other restrictions can be procompetitive because they give "an incentive to invest in the commercialization and distribution of products" by "protecting . . . against free-riding". *Antitrust Guidelines for the Licensing of Intellectual Property*, 68 Antitrust & Trade Reg. Rep. (BNA) No. 1708 (Special Supp.) at S-4 (April 13, 1995) (emphasis added). *Accord GTE Sylvania*, 433 U.S. at 55 (referring to "free riders" as a "market imperfection").



Gray market operators undermine this exclusive control by importing copies of works not intended for domestic distribution and, most commonly, by selling the unauthorized imports in mass-merchandise "discount" stores. As supply increases, the price which the copyright owner can obtain for the copyrighted work will decrease. Most likely, demand also will be affected by a drop in the work's quality, integrity, safety level, or prestige as a result of availability through channels of distribution that have lower standards of quality and supervision or may otherwise be undesirable. This will further drive down the price of the works intended for domestic distribution, and is just one more example of how the gray market prevents a copyright owner from fully enjoying the rights granted under section 106(3).

## II. THE COPYRIGHT ACT PROTECTS A U.S. COPYRIGHT FROM DIMINISHMENT BY GRAY MARKET IMPORTS.

### A. Section 602(a) Grants a Copyright Owner the Right to Control Imports.

Given the potentially devastating impact of the gray market on right holders, it is not surprising that the law gives copyright owners some protection against it. Section 602(a) of the Copyright Act makes actionable the "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States." 17 U.S.C. § 602(a).

Section 602(a) states that unauthorized importation is "an infringement of the exclusive right to distribute copies or phonorecords under section 106." *Id.* This does not mean, as petitioner argues, that the rights conferred by section 602(a) are merely a subset of the exclusive distribution rights conferred by section 106(3). To the contrary, the statute clearly establishes section 106(3) and section 602(a) as complementary rights, providing a ban on unauthorized importation in order to allow a copyright owner to receive the full benefit of its distribution right under section 106(3).

That the importation ban in section 602(a) is not subsumed by the distribution right in section 106(3) is evident by section 501(a), which lists the two as separate and distinct bases for infringement: "Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 . . . *or* who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright." 17 U.S.C. § 501(a); *see also* 17 U.S.C. § 511(a).

There is no question but that section 602(a) was intended to include a ban on importation of gray market goods. The language of the statute is straightforward: Except for a few enumerated exceptions, such as the one for personal use, unauthorized importation of copyrighted works into the United States is an infringement of the copyright. The statute makes no distinction between pirated copies and goods made with the copyright owner's consent but not authorized for sale in this country.

The legislative history of section 602(a) confirms that Congress intended to make unauthorized importation an infringement of copyright even when the goods in question were made with the consent of the copyright owner for sale outside of the United States. For example, both the House and Senate reports accompanying the final bill that became section 602(a) state:

> "Section 602 . . . deals with two separate situations: importation of 'piratical' articles (that is, copies or phonorecords made without any authorization of the copyright owner), *and unauthorized importation of copies or phonorecords that were lawfully made.* The general approach of section 602 is to make unauthorized importation an act of infringement in both cases, but to permit the United States Customs Service to prohibit importation only of 'piratical' articles." H.R. REP. NO. 1476, 94th Cong., 2d Sess. 169 (1976), *reprinted in* 1976 U.S. CODE CONG. & AD. NEWS 5659, 5785 (emphasis added); *see also* S. REP. NO. 473, 94th Cong., 1st Sess. 151 (1975).[8]



Contrary to petitioner's suggestion, *see* Pet. Br. at 3, 11, 31, the legislative history also leaves no doubt that section 602(a) was intended to provide a mechanism whereby a copyright owner could enforce its territorial restrictions on distribution without resort to a breach of a contract suit against its overseas distributor. *See Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1389-90 (C.D. Cal. 1993). In the long deliberations leading up to the Copyright Act of 1976, of which section 602(a) is a part, the Copyright Office initially opposed a ban on unauthorized but lawfully made imports, stating that it was reluctant to "impose the territorial restriction in a private contract upon third persons with no knowledge of the agreement."[9] Various industry officials and scholars, however, took issue with the Copyright Office's position and argued vigorously for a statute that would protect territorial distribution rights.[10] The Copyright Office thereafter changed its position, supporting a draft provision that eventually became section 602(a).[11]

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[8] Although this joint statement by both houses of Congress is the most "reliable" guide to congressional intent, *see Simpson v. United States*, 435 U.S. 6, 17-18 (1978) (Rehnquist, J., dissenting), it is all but ignored in the briefs supporting the petitioner.

[9] STAFF OF HOUSE COMM. ON THE JUDICIARY, 87TH CONG. 1ST SESS., COPYRIGHT LAW REVISION (PART 1): REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 126 (Comm. Print 1961).

[10] *See* STAFF OF HOUSE COMM. ON THE JUDICIARY, 88TH CONG., 1ST SESS., COPYRIGHT LAW REVISION (PART 2): DISCUSSION AND COMMENTS ON REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 212-14, 232, 275, 327 (Comm. Print 1963).

[11] *See* STAFF OF HOUSE COMM. ON THE JUDICIARY, 89TH CONG., 1ST SESS., COPYRIGHT LAW REVISION (PART 6): SUPPLEMENTARY REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 149-50 (Comm. Print 1965).

### B. The First Sale Doctrine of Section 109(a) Does Not Negate the Right to Block Unauthorized Imports of Goods Not Previously Distributed in the United States.

Petitioner claims that section 602(a)'s ban on unauthorized imports is negated in this case by section 109(a) of the Copyright Act. That section provides:

> "Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." 17 U.S.C. § 109(a).

Petitioner and its supporting *amici* argue that this so-called "first sale" doctrine operates to limit section 602(a) in all but a handful of circumstances.

The courts that have addressed the interaction among the distribution right of section 106(3), the first sale doctrine of section 109, and the ban on unauthorized imports in section 602(a) have reached three different conclusions.

On one extreme is the decision of the Third Circuit in *Sebastian Int'l, Inc. v. Consumer Contacts, Ltd.*, 847 F.2d 1093 (3d Cir. 1988). In that case, the court held that a first sale by the copyright owner, anywhere in the world, extinguishes any right later to prevent importation of those copies. *See* 847 F.2d at 1098. In other words, if the copyright owner distributes the material abroad, it cannot complain if that material is later diverted back into the United States for distribution and sale. *Id.*; *see also Neutrogena Corp. v. United States*, 7 U.S.P.Q.2d 1900 (D.S.C. 1988); *Cosmair v. Dynamite Enters.*, 226 U.S.P.Q. 344 (S.D. Fla. 1985).[12]

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[12] The *Sebastian* case involved goods first manufactured in the United States and then exported for sale, 847 F.2d at 1098, but the court's reasoning suggests that the same result would obtain even if the goods had been manufactured and first sold overseas. *See id.* at 1098 & n.1; *see also Red Baron-Franklin Park, Inc. v. Taito Corp.*, 9 U.S.P.Q.2d 1901, 1903 (continued...)



The great majority of courts that have considered the issue have rejected the reasoning in *Sebastian*, at least with respect to goods that were first manufactured and sold overseas. Most of these have followed the decision of the district court in *CBS v. Scorpio Music Distribs.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd without op.*, 738 F.2d 424 (3d Cir. 1984). The court in *Scorpio* reasoned that an item manufactured overseas is not "lawfully made under this title" within the meaning of section 109(a) and therefore is not subject to that section's first sale defense. *See* 569 F. Supp. at 49; *see also Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, 115 S. Ct. 1315 (1995); *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992); *Original Appalachian Artworks, Inc. v. J.F. Reichert, Inc.*, 658 F. Supp. 458, 463 (E.D. Pa. 1987); *CBS, Inc. v. Casino Record Distribs., Inc.*, 654 F. Supp. 677 (S.D. Fla. 1987); *Hearst Corp. v. Stark*, 639 F. Supp. 970 (N.D. Cal. 1986); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19, 25 (S.D. Fla. 1985); *Nintendo of America, Inc. v. Elcon Indus., Inc.*, 564 F. Supp. 937, 943-44 (E.D. Mich. 1982).

In the decision below, the Ninth Circuit followed a third approach. It did not rely on *Scorpio*'s interpretation of the words "lawfully made under this title" in section 109(a), but instead held that section 602(a) would be rendered meaningless if a first sale abroad could be a defense to unauthorized importation. *L'anza Research Int'l, Inc. v. Quality King Distributors, Inc.*, 98 F.3d 1109, 1114 (9th Cir. 1996); *see also Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1386 (C.D. Cal. 1993) (rejecting approach of *Scorpio*). Thus, the court held that section 109(a) did not supersede section 602(a)'s ban on unauthorized imports, even when the goods are manufactured domestically and then exported.

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[12](...continued)
(E.D. Va. 1988) (holding that a "logical and important" extension of *Sebastian* decision would apply to goods manufactured overseas), *rev'd on other grounds*, 883 F.2d 275 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990).

Of the three approaches exemplified by *Sebastian*, *Scorpio*, and *L'anza*, the broad reasoning in *Sebastian*—which is echoed in the briefs of petitioner and its supporting *amici*—finds the least support in the language of the Copyright Act and its legislative history.

First, and most important, the reading of section 109(a) that was adopted by the Third Circuit and is urged by petitioner completely undercuts the efficacy of the import bar expressly provided by Congress in section 602, because virtually all gray market goods have been the subject of a first sale abroad. If section 109(a) were to govern foreign sales, it would render section 602(a) "virtually meaningless" except as to pirated copies. *BMG Music*, 952 F.2d at 319 (quoting *Scorpio*, 569 F. Supp. at 49). The statute clearly was intended to have a broader effect. *See supra* pp. 12-13.

In order to give section 602(a) some "meaning" under their expansive reading of the first sale doctrine, petitioner and its supporting *amici* strive mightily to contrive examples of where the statute might still be applicable. None of these examples finds support in the legislative history or the case law. Petitioner surmises, for example, that section 602(a) was intended to provide an additional remedy that otherwise would not exist because it allows a copyright owner to block importation of infringing copies before they have actually been distributed in this country. Pet. Br. at 24-25. This innovative argument must be rejected in light of the fact that U.S. copyright law for over 200 years has expressly prohibited the mere act of "importation" of infringing copies into this country and has distinguished that act from dissemination to the public. *See* Copyright Act of 1790, ch. 15, 1 Stat. 124; Act of March 3, 1891, ch. 565, § 7, 26 Stat. 1104, 1109; Copyright Act of March 4, 1909, ch. 320, § 30, 35 Stat. 1075, 1082. Congress' statement that section 602(a) of the 1978 Act would allow a copyright owner to bring an action for infringement "even before any public distribution in this country has taken place" did not signal a change in policy, but was simply a restatement of the law. H.R. REP. NO. 1476, at 170; S. REP. NO. 473, at 152.

Petitioner also argues that section 602(a) has "meaning" with respect to non-piratical copies because section 109(a) would not prevent the copyright owner from blocking unauthorized importation



of copyrighted works by a thief, bailee, renegade licensee, or unrelated owner of the foreign copyright—on the ground that none of these would be "owner[s]" of the particular work within the meaning of section 109(a). Pet. Br. at 26-28.

According to this reading of the statute, Congress intentionally made importation rights turn on the precise legal relationships among manufacturers, middlemen and distributors. Such a result would not only be "unfortunate," but is also unsupported by any congressional indication that the statute was intended to address only these few types of wrongs. NIMMER ON COPYRIGHT, § 8.12[B][6], at 8-159 n.102 (1996). The result urged by petitioner is even more complicated, and less defensible, when it further circumscribes the "meaningful" interpretation of section 602(a) by suggesting that one who purchases an infringing work from an unlawful source (including, presumably, a thief) would nonetheless be protected by "the plain language" of section 109(a), regardless of the work's illegitimate provenance. Pet. Br. at 27 n.11.

The meaning attributed to section 602(a) by *amici* Costco Companies *et al.* is even more curious. Like the petitioner, Costco attempts to give content to section 602(a) by looking not to the language of that section but rather to section 109(a). While petitioner focuses on narrow permutations of the word "owner," Costco focuses on whether the owner is in possession of a copy "lawfully made under this title." According to Costco, a copy made by the copyright owner in the United States is "lawfully made under this title," as is a copy made by an assignee or licensee of the U.S. copyright, or a copy made by or for the copyright owner overseas.[13] This would make section 602(a) ineffective against

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[13] In support of this last proposition, Costco cites *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir.), *cert. denied*, 117 S. Ct. 190 (1996), and *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, 115 S. Ct. 1315 (1995). The *Denbicare* case was not concerned with where the goods had been *made* but whether they had been *sold* in the United States by the copyright owner or with its authority. *See* 84 F.3d at 1150. In the *Drug Emporium* case, the court (continued...)

virtually all gray market imports. However, Costco concludes, section 602(a) retains some meaning because it still allows a copyright owner to bring an action against importers of works made pursuant to assignments or licenses of *foreign* copyrights because these works, while "lawfully made," are not made "under this title." Costco Br. at 9-12.

Costco cannot point to any relevant authority supporting its unnatural parsing of the phrase "lawfully made under this title" into two separate legal requirements that give "meaning" to section 602(a). Moreover, such a reading would entail that Congress in 1976 foretold the eventual U.S. accession to the Berne Convention in 1989 and sought to ensure that when the U.S. joined this system of mutual and immediate recognition of copyrights without condition, U.S. copyright holders, although they have no other protection from the gray market, could assign or license the corresponding foreign copyrights without fear of injury from unauthorized imports.

The only cases cited by Costco in support of its "Case 1" and "Case 2" breakdown of section 109(a) are patent cases. Costco Br. at 15-18. This reliance on patent law is misplaced for a number of reasons. First, until January 1, 1988, patent law had no "importation" restriction analogous to section 602(a). *See* Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, § 9003, 102 Stat. 1564 (1988), *codified at* 35 U.S.C. § 271(g); *see generally* Peter D. Rosenberg, 3 PATENT LAW FUNDAMENTALS § 17.02 (3d ed. 1997). Prior to this express limitation, the gray market issue arose only "rarely" and was far from settled. *See* 5 Donald S. Chisum, CHISUM ON PATENTS § 16.03[2][a][iv] (1997).

In the few patent cases that have addressed the issue, the defining principle is not, as Costco asserts, whether the U.S. and foreign right holders are distinct entities, but whether the seller

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[13](...continued)
questioned whether the "lawfully made under this title" language of Section 109(a) was of any relevance at all to the section 602(a) inquiry. *See* 38 F.3d at 482. Neither case supports Costco's position.



abroad can be presumed by the foreign sale to have conveyed the right to sell in the United States. *See Boesch v. Graff*, 133 U.S. 697, 702-03 (1890); *Daimler Mfg. Co. v. Conklin*, 170 F. 70, 72 (2d Cir. 1909), *cert. denied*, 216 U.S. 621 (1910); *Sanofi, S.A. v. Med-Tech Veterinarian Products, Inc.*, 222 U.S.P.Q. 143, 148-49 (D. Kan. 1983); *Griffin v. Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283, 1285-86 (E.D. Pa. 1978); *see also Holiday v. Mattheson*, 24 F. 185 (S.D.N.Y. 1885) (no infringement where U.S. patentee sold patented article in a foreign country without any restrictions on resale).[14]

Central to the decision in these cases is that patent exhaustion is limited by nationwide boundaries and that "[t]he sale of articles in the United States under a United States patent cannot be controlled by foreign laws." *Boesch v. Graff*, 133 U.S. at 703; *see also Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) (patent law "makes no claim to extraterritorial effect"); *Griffin*, 453 F.Supp at 1285 (construing *Boesch* and *Deepsouth* to hold that Italian and American patents do not have to be owned by different persons in order for patentee to sue for infringement due to unauthorized importation from Italy).

The pinched "meanings" given to section 602(a) by petitioner and its supporting *amici* have no basis in the language of the statute or in the case law. Indeed, one is forced to wonder why industry representatives, officials from the Copyright Office, and successive Congresses would debate the scope and wording of the statute for nearly two decades to address such a limited handful of cases. Petitioner asks the Court to believe that Congress ultimately resolved this debate *sub silentio* by granting copyright owners extensive protections in section 602(a), only to have 99% of its protection eroded by application of section 109(a), even though neither statutory provision refers to the other.

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[14] *See generally* Brian D. Coggio and Adriane M. Antler, *The Utilization of United States Patents to Prevent the Importation and Sale of Gray Goods*, 83 TRADEMARK REP. 481 (1993); Hillary A. Kremen, Note, *Caveat Venditor: International Application of the First Sale Doctrine*, 23 SYRACUSE J. INT'L L. & COM. 161, 179-81 (1997).

If, as petitioner and its *amici* argue, Congress intended section 109(a) to carve such a gaping hole in section 602(a), then the first sale doctrine would have been one of the enumerated exceptions in section 602(a). That section expressly exempts importation of a work intended for governmental use, personal use, or use by an eleemosynary organization. "Where [as here] Congress explicitly enumerates certain exceptions to a general prohibition, additional exceptions are not to be implied, in the absence of evidence of a contrary legislative intent." *Andrus v. Glover Construction Co.*, 446 U.S. 608, 616-17 (1980). In this case, not only is section 109(a) not referenced, but introducing a first sale defense into section 602(a) would "obviate" the need for the exemptions that Congress did list, "since these copies will often be lawfully made gray market goods purchased through normal market channels abroad." 2 P. Goldstein, COPYRIGHT § 5.6.1 at 5.115-16 (1996); *see also C&C Beauty Sales*, 832 F. Supp. at 1388. For example, one of section 602(a)'s exceptions is for a "single" item imported for private use "and not for distribution." 17 U.S.C. § 602(a)(2). Yet, under petitioner's reading of section 109(a), a gray marketer would be entitled to distribute on a large scale what the individual importer cannot do for the single copy whose importation is specifically authorized by statute.

In addition to rendering section 602(a) and its enumerated exceptions "virtually meaningless," the position urged by petitioner, and the *Sebastian* case on which it is predicated, creates an inconsistency between section 106(3)'s grant of exclusive distribution rights and the express exception to that statutory grant in section 109(a). As discussed above, section 106(3) grants a copyright owner exclusive distribution rights only in the United States. *See supra* pp. 5-6. The statute does not purport to grant the copyright owner any right to distribute overseas. This is consistent with the "longstanding principle of American law 'that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.'" *EEOC v. Arabian American Oil Co.*, 499 U.S. 244, 248 (1991); *see also Subafilms, Ltd. v. MGM-Pathe Communications. Co.*, 24 F.3d 1088, 1091, 1095-96 (9th Cir. 1994) *(en banc)* (applying this



principle to copyright laws); *Update Art, Inc. v. Modiin Publ'g, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988) (same).

By virtue of the Berne Convention and other international treaties, a U.S. copyright owner may automatically acquire foreign copyrights in the work, but distribution of the work overseas is governed by the copyright law of the foreign country not by U.S. law. *See DeBardossy v. Puski*, 763 F.Supp. 1239, 1245 (S.D.N.Y. 1991) (international copyright conventions provide for nondiscrimination against works of foreign origin but do "not expand a member state's copyright laws extraterritorially").

Section 109(a), which is entitled a "limitation[ ] on exclusive rights", makes an express exception to the exclusive distribution rights of section 106(3) when the copyright owner has already made a "first sale" under that section. Petitioner's reading of section 109(a) is that it *also* prevents a copyright owner from bringing suit under section 602(a) for the unauthorized importation of goods over which the copyright owner has *never* exercised its section 106(3) domestic distribution rights, because the works were not intended for sale in the United States. There is no indication in the statute or the legislative history, however, that Congress intended section 109(a) to sweep more broadly than the section 106(3) domestic distribution right it was intended to limit. Section 109(a) by its terms does not purport to confer any right to *import* copyrighted works into the United States. It merely confers a right to "sell or otherwise dispose of the possession" of works already in this country by lawful means. *See C&C Beauty Sales*, 832 F. Supp. at 1389; *Sebastian Int'l, Inc. v. Consumer Contacts, Ltd.*, 664 F. Supp. 909, 918-20 (D.N.J. 1987).[15]

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[15] Based on similar principles recognizing that a limitation of a right cannot exceed the right's territorial scope, the law in Europe prior to formation of the European Community (EC) was generally that a copyright owner's national distribution rights were not extinguished ("exhausted") by a first sale in another country. *See* Jan Corbet, *The Law of EEC and Intellectual Property*, 13 J.L. & COM. 327, 333 (1994). Since formation of the EC and its recognition of EC-wide intellectual property rights, the (continued...)

Contrary to the argument of *amici* Costco Companies *et al.*, statutory limitations on the rights of U.S. copyright owners are not presumed to be triggered by "operative acts" occurring outside the United States. The "operative acts" identified by Costco all *create* or transfer rights based on actions overseas. Costco Br. at 18-21. However, the Copyright Act does not expressly or implicitly recognize any extraterritorial "operative" actions that might serve to limit or prevent the exercise of domestic rights. *See United Dictionary*, 208 U.S. at 264-66 (failure to publish copyright notice on foreign editions does not defeat copyright in U.S.); *see also Beechwood Music Corp. v. Vee Jay Records, Inc.*, 328 F.2d 728, 729 (2d Cir. 1964) (Friendly, J.) (licensing of reproductions of sound records abroad does not trigger the compulsory license provisions in the U.S.).

This failure to recognize the territoriality of the section 106(3) distribution right mars not only the reasoning in *Sebastian*, but also that underlying the *Scorpio* line of cases, which hold that the first sale defense applies only to goods manufactured in this country. *See supra* p. 15. Although *Scorpio* rightly recognized that application of the first sale doctrine to section 602(a) renders it "virtually meaningless" with respect to non-piratical goods, it also held that section 109(a)'s limitation for goods "lawfully made under this title" means that section 602(a) does not apply to goods manufactured in this country and then exported for sale. *Scorpio*, 569 F. Supp. at 49. As we have shown, this reading of the statute

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[15](...continued)
Court of Justice of the European Communities has taken the position that once an owner of an intellectual property right consents to market his or her product in one EC Member State, under Community law that right is exhausted and the owner cannot thereafter use it to restrain unauthorized importation of that product into another EC Member State. *See id.* at 335-36. However, the marketing of a product *outside* the EC by the copyright owner or a licensee does not exhaust the right to bar unauthorized importation into the EC. *See, e.g., Polydor v. Harlequin Record Shops*, [1982] ECR 329; *see generally* Allen M. Shinn, *Liabilities Under Article 42 of the U.N. Convention on the International Sale of Goods*, 2 MINN. J. GLOBAL TRADE 115, 138-39 (1993).



is in conflict with the principles governing the territoriality of copyrights and must be rejected in favor of the approach taken in the decision below—that section 109(a) is simply not applicable to section 602(a) to the extent that it involves goods for which the section 106(3) right has never been exercised.

In disregarding the place of manufacture, the approach taken by the Ninth Circuit in the decision under review accurately reflects not only the territorial scope of the section 106(3) distribution right but also the actual language of section 602(a), which focuses uniquely on where a copy was acquired, not where it was made.[16] Section 602(a) is directed to the unauthorized importation of copies "acquired outside the United States." This focus on copies acquired abroad dovetails perfectly with a territorial reading of section 109(a), which limits application of the first sale doctrine to copies first distributed in the United States under the domestic distribution right of section 106(3). The court below correctly reconciled sections 106, 109, and 602 by determining that copies first distributed in the United States pursuant to section 106(3)'s domestic distribution right could be subject to the "first sale" defense to efforts to control their later disposition, while copies distributed and acquired abroad could not.

In reaching this conclusion, it was proper for the court to look to whether the actions complained of would frustrate the copyright owner in enjoying the "full value" of the copyrighted works intended for domestic distribution. As demonstrated in Part I of this brief, the gray market severely devalues a copyright by undermining the copyright owner's exclusive right to domestic distribution. *See supra* pp. 6-11. The court did not focus, as petitioner suggests, on whether the copyright owner realized "full value" for the goods intended for foreign distribution before they were diverted for sale in the United States. Pet. Br. at 11-12, 32-32. Instead, the court focused, properly, on the impact of the gray market on the goods authorized for sale in this country. *See L'anza*, 98 F.3d at 1117

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[16] A contrast to section 602(a)'s focus on the place of acquisition can be found in section 601, which expressly restricts importation of certain material based on its place of manufacture. *See* 17 U.S.C. § 601.

("the unauthorized importation of these goods undercuts L'anza's ability to receive the full value for L'anza products sold in the United States through authorized channels"); *see also C&C Beauty*, 832 F. Supp. at 1386 (gray market "prevents the United States copyright owner from realizing the full value of each copy released into the United States market with his authorization").

The test of whether certain actions diminish the value of a copyright has long been applied by this Court in determining whether there has been an infringement of a copyright owner's exclusive rights. *See, e.g., Harper & Row*, 471 U.S. at 544-46 (1985); *Sony*, 464 U.S. at 421, 425, 451 (1984); *Teleprompter Corp. v. CBS*, 415 U.S. 394, 413 (1974); *Goldstein v. California*, 412 U.S. 546, 564 (1973); *see also* 17 U.S.C. § 107(4). The Ninth Circuit correctly applied the same test here.

### C. The Copyright Act Enables a Right Holder to Bring an Action Against a Distributor of Unauthorized Imports.

It is important to note that the protection afforded by section 602(a) with respect to gray market goods is quite limited. While Congress gave the Customs Service the power to prevent entry to pirated copies, it did not grant it the same authority for non-piratical goods. *See* 17 U.S.C. § 602(b); 19 C.F.R. 133.42(b). Instead, the copyright owner must undergo the more cumbersome and expensive process of seeking to stop unauthorized importation on a case-by-case basis by means of a civil suit under section 602(a).[17]

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[17] Petitioner suggests that L'anza and other combatants of the gray market are trying to accomplish through copyright law what they have not been able to accomplish through application of trademark law, citing this Court's decision in *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988). *See* Pet. Br. at 7-9. The *K Mart* case involved section 526 of the Tariff Act of 1930, which allows any U.S. entity to record its U.S. trademark with the Customs Service in order to prevent unauthorized importation of goods bearing that trademark, including genuine goods. *See* 19 U.S.C. § 1526(a). The protection provided by section 526, however, is only available to U.S. entities and only against "merchandise of foreign manufacture." *Id.* The Customs Service has interpreted this requirement (continued...)



*Amici* Costco Companies *et al.* argue that this protection is even further limited because suit may only be brought against the actual importer and not the distributors who are selling the unauthorized imports. *See* Costco Br. at 21-26. This argument is supported neither by the language of section 602(a) nor by copyright practice generally.

Although section 602(a) refers to unauthorized "importation," the harm at which it is expressly directed is "an infringement of the exclusive right to *distribute* copies." 17 U.S.C. § 602(a) (emphasis added). Thus, the statute contains various exceptions for importation that will not lead to distribution. Subsection (a)(2), for example, exempts from liability "importation, for the private use of the importer *and not for distribution*" of single copies of copyrighted works; and subsection (a)(3) exempts from liability importation by eleemosynary organizations for various specified uses "unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or *distribution*." Moreover, a copyright owner simultaneously can bring suit under section 106(3) for infringement of its domestic distribution rights in addition to asserting a violation of section 602(a) importation rights.

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[17](...continued)
to mean that it need not prevent entry of gray market goods when the U.S. and foreign trademark holder are the same person or are subject to common ownership or control. *See* 19 C.F.R. 133.21(c). In *K Mart*, a divided Court upheld Customs' regulation as a reasonable interpretation of ambiguous statutory language. *See* 486 U.S. at 293 (opinion of Kennedy, J.); *id.* at 309-12 (opinion of Brennan, J.)

The Customs regulation at issue in the *K Mart* case has no bearing on the question presented in this case. First, the Customs Service has no responsibility or authority over section 602(a) cases. Second, and more important, the purpose, scope, and statutory scheme for trademark and copyright bear no relationship to each other. *See Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n. 19 (1984); *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918). Many trademarks are not sufficiently original or creative to meet the copyright standard.

Furthermore, the position urged by Costco is inconsistent with copyright law generally. "Courts have long held that in patent, trademark, literary property, and copyright infringement cases, any member of the distribution chain can be sued as an alleged joint tortfeasor." *See Stabilisierungsfonds Fur Wein v. Kaiser Stuhl Wine Distribs. Pty. Ltd.*, 647 F.2d 200, 207 (D.C. Cir. 1981) (Ginsburg, J.) (citing cases). The copyright owner "may sue as many or as few of the alleged wrongdoers as he chooses; those left out of the lawsuit, commentary underscores, are not indispensable parties." *Id.*; *see also Costello Publishing Co. v. Rotelle*, 670 F.2d 1035, 1043 (D.C. Cir. 1981); *see generally* 2 P. Goldstein, COPYRIGHT § 13.6.1 (1996).

In copyright cases generally, distributors of infringing goods, even innocent ones, are liable for infringement regardless of lack of intent. *See, e.g., D.C. Comics, Inc. v. Mini Gift Shop*, 912 F.2d 29, 35 (2d Cir. 1990); *Costello Publishing*, 670 F.2d at 1044 n.13; *American Int'l Pictures, Inc. v. Foreman*, 576 F.2d 661, 664 (5th Cir. 1978). While intent is not an element of copyright infringement, it can be relevant in the consideration of appropriate remedies. *Costello Publishing*, 670 F.2d at 1044 n. 13; *Ford Motor Co. v. B&H Supply, Inc.*, 646 F.Supp. 975, 989 (D.Minn. 1986). A court confronted with a *bona fide* "innocent" infringer who "was not aware and had no reason to believe that his or her acts constituted an infringement" may reduce an award of statutory damages accordingly. *See* 17 U.S.C. § 504.

Whether or not the Ninth Circuit was correct that Quality King is an "importer" of gray market L'anza products,[18] its decision holding Quality King liable under section 602(a) is consistent with these general copyright principle of joint and several liability, regardless of intent. The decision is also consistent with others allowing section 602(a) suits to proceed against a distributor. *See Drug Emporium*, 38 F.3d at 481; *Scorpio*, 569 F.Supp. at 48-49.

On the other hand, there is nothing in the case law, the statutory language, or the legislative history to support Costco's

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[18] Review of this factual issue is not part of the question presented.



theory that the "good-faith purchaser for value" provisions of the Uniform Commercial Code (U.C.C.) should apply. Because intent is not an element of infringement, *see supra*, "there is no such thing as a bona fide purchaser for value in copyright law." *ISC-Bunker Ramo Corp. v. Altech, Inc.*, 765 F.Supp. 1310, 1331 (N.D. Ill. 1990); *see also Microsoft Corp. v. Harmony Computers & Electronics, Inc.*, 846 F. Supp. 208,211 (E.D.N.Y. 1994). There is no reason that this U.C.C. provision, which is otherwise not applicable to copyright, springs to life in section 602(a) and exempts a distributor from joint and several liability for its sale of goods imported without the copyright owner's authorization.

Finally, in a substantial number of cases, the position urged by Costco would leave a right holder without any remedy at all against unauthorized imports. Because the Customs Service exerts no control over non-piratical imports, a copyright owner most likely will not learn that copies of the work have been imported without authorization until they appear on the distributor's shelves. Even assuming that the copyright owner could engage in discovery against the distributor to try to determine who imported the works, this can prove a futile inquiry due to the gray market practice of using shell companies and obliterating product codes used to trace products. *See Disenos Artisticos e Industriales, S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 379 (9th Cir. 1996); *Johnson & Johnson Prods. v. DAL Int'l Trading*, 798 F.2d 100, 103 (3d Cir. 1986); *John Paul Mitchell Sys.*, 862 F.Supp. at 1025. Far from protecting *bona fide* purchasers in good faith, the limited reading of the Copyright Act urged by Costco would encourage willful blindness in determining whether a good has been imported without a copyright owner's authorization. A retailer unsure of a copyrighted work's provenance is entitled to seek indemnification from its suppliers, *see* U.C.C. § 2-312(3),[19] but not an exemption from the plain language of the statute.

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[19] This section provides; "Unless otherwise agreed a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like . . ."

## CONCLUSION

For the foregoing reasons, and the reasons set forth in the brief for respondent, this Court should affirm the decision below.

Respectfully submitted,

*Of Counsel:*
JAN S. AMUNDSON
General Counsel
QUENTIN RIEGEL
Deputy General Counsel
National Association of Manufacturers
1331 Pennsylvania Ave., NW
Washington, D.C. 20004
(202) 637-3000

*Counsel for the National Association of Manufacturers*

CHARLES E. BUFFON
*Counsel of Record*
CAROLINE M. BROWN
RONALD G. DOVE, JR.
Covington & Burling
1201 Pennsylvania Ave., NW
Post Office Box 7566
Washington, D.C. 20044
(202) 662-6000

*Counsel for the National Consumers League and the Coalition to Preserve the Integrity of American Trademarks*

THOMAS J. DONEGAN, JR.
Vice President - Legal & General Counsel
The Cosmetic, Toiletry, and Fragrance Association
1101 17th Street, NW
Suite 300
Washington, D.C. 20036
(202) 331-1770

*Counsel for The Cosmetic, Toiletry, and Fragrance Association*

DANIEL F. O'KEEFE, JR.
Senior Vice President and General Counsel
EVE E. BACHRACH
Vice President and Deputy General Counsel
Nonprescription Drug Manufacturers Association
1150 Connecticut Ave., NW
Washington, D.C. 20036
(202) 429-9260

*Counsel for the Nonprescription Drug Manufacturers Association*